Relief withdrawn or reduced	End-of-life lease	Deep water		
		Expansion project	Pre-act lease	Development project
(1) If recipient requests	X	X	X	X
(2) Lease royalty rate is at the effective rate for 12 consecutive months	X			
(3) Conditions occur that we specified in the approval letter in individual cases	X			
(4) Recipient does not submit post-production report that compares expected to actual costs		X	X	X
(5) Recipient changes development system		X	X	X
(6) Recipient excessively delays starting fabrication		X	X	X
(7) Recipient spends less than 80 percent of proposed pre-production costs prior to start of production		X	X	X
(8) Amount of relief volume is produced		X	X	X

[67 FR 1873, Jan. 15, 2002, as amended at 69 FR 3509, Jan. 26, 2004]

§ 203.5 What is MMS's authority to collect information?

The Paperwork Reduction Act of 1995 (PRA) requires us to inform you that MMS may not conduct or sponsor and you are not required to respond to a collection of information unless it displays a currently valid OMB control number. OMB approved the information collection requirements in this part 203 under 44 U.S.C. 3501 *et seq.* in two actions. The information collection requirements in §§ 203.50 through 203.91 are approved under OMB control number 1010–0071, and those in §§ 203.40 through 203.48 are approved under 1010–0153.

[69 FR 3509, Jan. 26, 2004]

Subpart B—OCS Oil, Gas, and Sulfur General

SOURCE: 63 FR 2618, Jan. 16, 1998, unless otherwise noted.

ROYALTY RELIEF FOR DRILLING DEEP GAS WELLS ON LEASES NOT SUBJECT TO DEEP WATER ROYALTY RELIEF

SOURCE: 69 FR 3510, Jan. 26, 2004, unless otherwise noted.

§ 203.40 Which leases are eligible for royalty relief as a result of drilling deep wells?

Your lease may receive a royalty suspension volume under §§ 203.41 through 203.43, and may receive a royalty suspension supplement under §§ 203.44 through 203.46, if it:

(a) Was:

(1) In existence on January 1, 2001;

(2) Issued in a lease sale held after January 1, 2001, and before April 1, 2004, and either the lessee has exercised the option provided for in § 203.48 or the lease is located partly in water less than 200 meters deep and no deep water royalty relief provisions in statutes or lease terms apply to the lease; or

(3) Issued in a lease sale held on or after April 1, 2004, and either the lease terms provide for royalty relief under §§ 203.41 through 203.47 of this part or the lease is located partly in water less than 200 meters deep and no deep water royalty relief provisions in statutes or lease terms apply to the lease;

(b) Is located:

(1) In the GOM, wholly west of 87 degrees, 30 minutes West longitude;

(2) Entirely in water less than 200 meters deep, or partly in water less than 200 meters deep and no deep-water royalty relief provisions in statutes or lease terms apply to the lease; and

(c) Has not produced gas or oil from a deep well with a perforated interval the top of which is 18,000 feet TVD SS or deeper that commenced drilling before March 26, 2003.

[69 FR 3510, Jan. 26, 2004, as amended at 70 FR 22252, Apr. 29, 2005]

§ 203.41 If I have a qualified well, what royalty relief will my lease earn?

(a) This paragraph and paragraph (b) of this section apply if your lease has not produced gas or oil from a deep well that commenced drilling before March 26, 2003. Subject to the administrative requirements of § 203.43, the provisions of § 203.44(d), and the price conditions in § 203.47, you earn a royalty suspension volume shown in the following table in billions of cubic feet (BCF) or in thousands of cubic feet (MCF) applicable to gas production as prescribed in § 203.42:

If you have a qualified well that is . . .	Then you earn a royalty suspension volume on this amount of gas production, as prescribed in this section and § 203.42:
(1) An original well with a perforated interval the top of which is from 15,000 to less than 18,000 feet TVD SS.	15 BCF.
(2) A sidetrack with a perforated interval the top of which is from 15,000 to less than 18,000 feet TVD SS.	4 BCF plus 600 MCF times sidetrack measured depth (rounded to the nearest 100 feet) but no more than 15 BCF.
(3) An original well with a perforated interval the top of which is 18,000 feet TVD SS or deeper.	25 BCF.
(4) A sidetrack with a perforated interval the top of which is 18,000 feet TVD SS or deeper.	4 BCF plus 600 MCF times sidetrack measured depth (rounded to the nearest 100 feet) but no more than 25 BCF.

(b) We will suspend royalties on gas volumes produced on or after May 3, 2004, reported on the Oil and Gas Operations Report, Part A (OGOR-A) for your lease under § 216.53, as and to the extent prescribed in § 203.42. All gas production from qualified wells reported on the OGOR-A, including production that is not subject to royalty (except for production to which a royalty suspension supplement under §§ 203.44 and 203.45 applies), counts toward the lease royalty suspension volume.

Example 1. If you have a qualified well that is an original well with a perforated interval the top of which is 16,000 feet TVD SS, you earn a royalty suspension volume of 15 BCF of gas production from qualified wells on your lease, as prescribed in § 203.42. However, if the top of the perforated interval is 18,500 feet TVD SS, the royalty suspension volume is 25 BCF.

Example 2. If you have a qualified well that is a sidetrack with a perforated interval the top of which is 16,000 feet TVD SS, that has a sidetrack measured depth of 6,789 feet, we round the distance to 6,800 feet and you earn a royalty suspension volume of 8.08 BCF of gas production from qualified wells on your lease, as prescribed in § 203.42.

Example 3. If you have a qualified well that is a sidetrack with a perforated interval the top of which is 16,000 feet TVD SS, that has a sidetrack measured depth of 19,500 feet, you earn a royalty suspension volume of 15 BCF of gas production from qualified wells on your lease, as prescribed in § 203.42, even though 4 BCF plus 600 MCF per foot of sidetrack measured depth equals 15.7 BCF.

(c) This paragraph and paragraph (d) of this section apply if your lease has produced gas or oil from a deep well with a perforated interval the top of which is from 15,000 to less than 18,000 feet TVD SS (regardless of whether drilling began before or after March 26, 2003), and you subsequently have a qualified well on your lease with a perforated interval the top of which is 18,000 feet TVD or deeper. Subject to the administrative requirements of § 203.43, the provisions of § 203.44(d), and the price conditions in § 203.47, you earn a royalty suspension volume specified in the following table, applicable to gas production as prescribed in § 203.42. This royalty suspension volume is in addition to any royalty suspension volume your lease already may have earned, if any, as a result of a qualified well with a perforated interval the top of which is from 15,000 to less than 18,000 feet TVD SS.

If your lease has produced gas or oil from a deep well with a perforated interval the top of which is from 15,000 to less than 18,000 feet TVD SS, and you subsequently have a qualified well that is . . .	Then, you earn a royalty suspension volume on this amount of gas production, as prescribed in this section and § 203.42
(1) An original well or a sidetrack with a perforated interval the top of which is from 15,000 to less than 18,000 feet TVD SS.	0 BCF.
(2) An original well with a perforated interval the top of which is 18,000 feet TVD SS or deeper.	10 BCF.
(3) A sidetrack with a perforated interval the top of which is 18,000 feet TVD SS or deeper.	4 BCF plus 600 MCF times sidetrack measured depth (rounded to the nearest 100 feet) but no more than 10 BCF.

(d) We will suspend royalties on gas volumes produced on or after May 3, 2004, reported on the Oil and Gas Operations Report, Part A (OGOR-A) for your lease under § 216.53, as and to the extent prescribed in § 203.42. All gas production from qualified wells reported on the OGOR-A, including production that is not subject to royalty (except for production to which a royalty suspension supplement under §§ 203.44 and 203.45 applies), counts toward the lease royalty suspension volume.

Example 1. If you have drilled and produced a well with a perforated interval the top of which is 16,000 feet TVD SS before March 26, 2003 (and therefore, it is not a qualified well and has earned no royalty suspension volume) and later drill:

(i) A well with a perforated interval the top of which is 17,000 feet TVD SS, you earn no royalty suspension volume.

(ii) A qualified well that is an original well with a perforated interval the top of which is 19,000 feet TVD SS, you earn a royalty suspension volume of 10 BCF of gas production from qualified wells on your lease, as prescribed in § 203.42.

(iii) A qualified well that is a sidetrack with a perforated interval the top of which is 19,000 feet TVD SS, that has a sidetrack measured depth of 7,000 feet, you earn a royalty suspension volume of 8.2 BCF of gas production from qualified wells on your lease, as prescribed in § 203.42.

Example 2. If you have a qualified well (*i.e.*, drilled after March 26, 2003) that is an original well with a perforated interval the top of which is 16,000 feet TVD SS and later drill a second qualified well that is an original well with a perforated interval the top of which is 19,000 feet TVD SS, we increase the total royalty suspension volume for your lease from 15 BCF to 25 BCF, as prescribed in § 203.42.

Example 3. If you have a qualified well (*i.e.*, drilled after March 26, 2003) that is a sidetrack with a perforated interval the top of which is 16,000 feet TVD SS, that has a sidetrack measured depth of 4,000 feet, and later drill a second qualified well that is a sidetrack with a perforated interval the top of which is 19,000 feet TVD SS, that has a sidetrack measured depth of 8,000 feet, we increase the total royalty suspension volume for your lease from 6.4 BCF to 15.2 BCF, as prescribed in § 203.42. The difference of 8.8 BCF represents the royalty suspension volume earned by the second sidetrack.

(e) After your lease has produced gas or oil from a deep well with a perforated interval the top of which is 18,000 feet TVD SS or deeper, your lease cannot earn a royalty suspension volume as a result of drilling any subsequent qualified wells.

(f) The royalty suspension volume determined under this section for the first qualified well on your lease (whether an original well or a sidetrack) establishes the total royalty suspension volume available for that drilling depth interval on your lease, regardless of the number of subsequent qualified wells you drill to that depth interval.

Example to paragraph (f): If your first qualified well is a sidetrack with a perforated interval the top of which is 16,000 feet TVD SS and earns a royalty suspension volume of 12.5 BCF, and you later drill a qualified original well to 17,000 feet TVD SS, the royalty suspension volume for your lease remains at 12.5 BCF and does not increase to 15 BCF. However, under paragraph (b) of this section, if you subsequently drill a qualified well to another depth interval 18,000 feet or greater TVD SS, you may earn an additional royalty suspension volume.

(g) If a qualified well on your lease is within a unitized portion of your lease, the royalty suspension volume earned by that well under this section applies only to your lease and not to other leases within the unit.

(h) If your qualified well is a directional well (either an original well or a sidetrack) drilled across a lease line, the lease with the perforated interval that initially produces earns the royalty suspension volume. However, if the perforated interval crosses a lease line, the lease where the surface of the well is located earns the royalty suspension volume.

(i) Any royalty suspension volume earned under this section is in addition to any royalty suspension supplement for your lease under § 203.44 that results from a different wellbore.

(j) If your lease earns a royalty suspension volume under this section and later produces from a deep well that is not a qualified well, the royalty suspension volume is not forfeited or terminated. However, you may not apply the royalty suspension volume under this section to production from the deep well that is not a qualified well, even if it begins producing after your first qualified well.

(k) You owe minimum royalties or rentals in accordance with your lease terms notwithstanding any royalty suspension volumes allowed under paragraphs (a) and (b) of this section.

[69 FR 3510, Jan. 26, 2004, as amended at 69 FR 24053, Apr. 30, 2004]

§ 203.42 To which production do I apply the royalty suspension volume earned from qualified wells on my lease?

(a) This paragraph applies to any lease that is not within an MMS-approved unit. Subject to the requirements of §§ 203.40, 203.41, 203.43, 203.44, and 203.47, you must apply the royalty suspension volumes prescribed in § 203.41 to the earliest gas production:

(1) Occurring on and after the later of May 3, 2004, or the date that the first qualified well that earns your lease the royalty suspension volume begins production (other than test production);

(2) From all qualified wells, regardless of their depth, on your lease for which you have met the requirements in § 203.43, up to the aggregate royalty suspension volume earned by your lease.

Example to paragraph (a): You began drilling an original well that was a qualified well with a perforated interval the top of which is 18,200 feet TVD SS on May 1, 2003 and it began producing on September 1, 2003. You subsequently drilled two more original wells that are qualified wells with a perforated interval the tops of which are 16,600 feet TVD SS. The first well earned a royalty suspension volume of 25 BCF. You must apply the royalty suspension volume each month beginning on March 1, 2004 to production from all three wells until the 25 BCF royalty suspension volume is fully utilized.

(b) This paragraph applies to any lease all or part of which is within an MMS-approved unit. If your lease has a qualified well, a share of the production from all the qualified wells in the unit participating area will be allocated to your lease each month according to the participating area percentages. Subject to the requirements of §§ 203.40, 203.41, 203.43, 203.44, and 203.47, you must apply the royalty suspension volume to the earliest gas production occurring on and after the later of May 3, 2004, or the date that the first qualified well that earns your lease the royalty suspension volume begins production (other than test production):

(1) From all qualified wells on the non-unitized area of your lease and

(2) Allocated to your lease from qualified wells on unitized areas of your lease and other leases in the unit under an MMS-approved unit agreement. That allocated share does not increase the royalty suspension volume for your lease. None of the volumes produced from a well that is not within a unit participating area may be allocated to other leases in the unit.

Example to paragraph (b): The east half of your lease A is unitized with all of lease B. There is one qualified well on the non-unitized portion of lease A, one qualified well on the unitized portion of lease A and a qualified well on lease B. The participating area percentages allocate 32 percent of production from both of the unit qualified wells to lease A and 68 percent to lease B. If the non-unitized qualified well on lease A produces 12,000 MCF and the unitized qualified well on lease A produces 15,000 MCF, and the qualified well on lease B produces 10,000 MCF, then the production volume from and allocated to lease A to which the lease A royalty suspension volume applies is 20,000 MCF [12,000 + (15,000 + 10,000)(32 percent)]. The production volume allocated to lease B to which the lease B royalty suspension volume applies is 17,000 MCF [(15,000 + 10,000)(68 percent)].

(c) Unused royalty suspension volume transfers to a successor lessee and expires with the lease.

(d) You may not apply the royalty suspension volume allowed under § 203.41:

(1) To production from completions less than 15,000 feet TVD SS, except in cases where the qualified well is re-perforated in the same reservoir previously perforated deeper than 15,000 feet TVD SS;

(2) To production from a deep well that commenced drilling before March 26, 2003; or

(3) To production from a deep well on any other lease, except as provided in paragraph (b) of this section.

(e) You must begin paying royalties when the cumulative production of gas from all qualified wells on your lease, or allocated to your lease under paragraph (b) of this section, reaches the applicable royalty suspension volume allowed under § 203.41. For the month in which cumulative production reaches this royalty suspension volume, you